

Cambi ASA – Q3 2024 Transcript

Asker, 7 November 2024

Introduction

Anda Şomodea, webcast host and Marketing Director

Good morning.

Slide 2 - Disclaimer

Thank you for joining Cambi's presentation of our third-quarter results. My name is Anda Şomodea, and I am the marketing director at Cambi.

Over the next 30 minutes, our CEO and CFO will walk you through the highlights of our recent business achievements and financial performance.

We will address any questions after the presentation, so please feel free to send them to our investor relations team at investors@cambi.com.

Please note that today's presentation may contain forward-looking statements that involve risks and uncertainties, meaning actual outcomes could vary from our expectations.

Now I'm pleased to introduce Cambi's CEO, Per Lillebø.

CEO highlights

Per Lillebø, CEO

Good morning, everyone!

Slide 3 - Financial highlights

I am pleased to present Cambi's financial performance for the third quarter of 2024, reflecting another solid quarter for the company.

Revenue for the quarter was NOK 277 million, 18% above the same quarter last year, reflecting high activity levels in both the Technology and the Solution segments.

This was the seventh consecutive quarter with revenue higher than NOK 200 million. EBITDA was NOK 68 million, which is similar to the same quarter last year.

This quarter, we balance strong profitability with investments in areas like R&D, marketing and sales, and project execution capacity. This is a healthy sign for Cambi, showing that we can maintain earnings while we continue investing to make the company grow.

There were no new notable contract awards during the quarter, but many smaller awards and change orders brought the total order intake to NOK 117 million. Last year's third quarter brought record-high order intake, illustrating the unpredictable timing of contract awards.

However, our order backlog remains robust at more than NOK 1.3 billion, providing stability and visibility for upcoming quarters.

Slide 4 – Global presence and solid track record

We currently have reference plants in 27 countries with 90 sold installations capable of processing the sludge from 120 million people. On this slide, we can see how Cambi's technology is spread across diverse regions.

Our project execution capabilities demonstrated over several years have allowed us to build trust with partners worldwide, reinforcing Cambi's reputation.

Slide 5 – A new logo, website, and visual identity

This quarter, we launched our new visual identity, including a modern logo and website suitable for the modern digital world. It is a modern, clean, and simple design that can be used on digital channels. In addition, it will inspire several design elements to be used in our brand moving forward.

From the logo, you can read growth, circularity, water, and the letter C. We believe this updated identity will strengthen Cambi's recognition and help us effectively communicate our role as a leader in sustainable wastewater technology solutions.

Operational review

Slides 6 and 7 – Technology – operational review

Moving on to the operational review, Cambi continued its project execution according to plans with no notable disruptions.

Two major projects were commissioned: the THP for the Biosolids Recovery Project in Raleigh, North Carolina, and the project delivered to Biofos at the Damhusåen wastewater treatment facility in Copenhagen. Each installation has demonstrated Cambi's ability to deliver on time and according to client specifications. In Copenhagen, Cambi acted as a turnkey supplier, demonstrating our capacity to take on a wider scope beyond the THP in markets close to home.

Additionally, installation work proceeded at the sites in Lillestrøm, Norway, and Secunda, the Sasol plant, in South Africa.

Moving on, manufacturing has progressed steadily for other key projects. The THP units for Singapore and San Francisco commenced production at the workshop in Congleton, and we are on track to deliver on time. During the third quarter, we also started purchasing the materials for the THP to be delivered in Louisville, Kentucky.

Our engineers were also busy. The three projects in Norway, Australia, and New Zealand completed the engineering phase and moved into purchasing as scheduled.

Additionally, the project in Ukraine has resumed after being on hold due to force majeure for more than two years. This is a positive outcome given the complexities involved.

Slide 8 – Solutions – Services – operational review

In the Solutions segment, the third quarter has been a period of high activity in the Services organisation, progressing across several areas.

We have two upgrade projects currently in commissioning. We have made substantial headway in Dublin at Irish Water's Ringsend facility and in Norwich at Anglian Water's

Whittingham plant. Both projects were approaching completion by the end of the quarter.

These upgrades represent Cambi's commitment to ensure our clients get the best value from their existing assets and that these facilities will have a life far longer than the original 20-year operational lifetime.

These are infrastructure investments that may be in operation for 40+ years with systematic maintenance and upgrading. Beyond these projects, we have also made progress in other upgrades.

An engineering study we initiated earlier in the year has now been completed, providing valuable insights that guide the next steps for one of our clients. Additionally, we have started a new engineering study for a potential upgrade site in the UK.

The third quarter is a high season for annual THP maintenance and other site services. Our team has been particularly active in the UK and Central Europe, supporting clients with essential maintenance and yearly shutdowns managed by Cambi.

To meet rising demand, we have continued to expand our Services team.

Slide 9 – Solutions – Recycling – operational review

For Grønn Vekst, our soil business in Norway, the third quarter saw positive volume growth and operational and organisational strengthening to meet future demand. We are presently investing in Grønn Vekst to enable the company to grow profitably in the years to come.

A new CFO has joined Grønn Vekst at our headquarters in Grimstad, strengthening the leadership in Grønn Vekst. We saw substantial growth in bulk soil sales, which increased to 81,000 tonnes this quarter, up 23% from the same period last year.

We have reached 221,000 tonnes of bulk soil sales from January to September this year, a 27% rise from the same period in 2023. The team has done an excellent job in meeting this demand.

Our retail soil business is also gearing up for future expansion. We stayed on track with soil bank deliveries from the bagging facility through this quarter, and production has already started for deliveries in the spring of 2025. To support growth, Grønn Vekst signed agreements for additional production areas in the third quarter, allowing us to triple our capacity for especially peat-free soil blends.

While we did not secure any large new contracts this quarter, we added several smaller ones, contributing to a steady workflow.

Overall, Grønn Vekst is well-positioned for sustainable growth with increased production capacity and an expanding market presence.

Market

Slide 10 – Recent developments

Since the end of the third quarter, one highlight has been a new contract in Spain. At the end of October, we secured a small project in Palma de Mallorca. This project is in collaboration with a Spanish construction consortium. The installation will demonstrate our THP technology between two digestion steps. We term this solution as I-THP, which means intermediate THP. This configuration is normally used in retrofit projects where there is enough digestion capacity available.

This solution allows for a smaller THP as we hydrolyse only the biosolids that have been digested in a conventional step in front of our THP process. Delivery is scheduled for 2026, with operations expected to begin in 2027.

Palma is Cambi's fourth project in Spain, bringing total installed capacity above 2 million people equivalent. However, this is only 5% of the total Spanish market potential. I am optimistic that we will win new contract awards in Spain in the coming years.

Another important update concerns Cambi's leadership. In August, I assumed the role of CEO following Eirik Fadnes' departure. Additionally, on October 25th, Andreas Mørk was appointed the new Chair of the Board, taking over from me. Andreas represents Cambi's second-largest shareholder and has been on Cambi's board since 2022. The transition ensures that Cambi remains on a stable path of future growth and innovation supported by an experienced leadership team.

Slide 11 - Outlook

Looking ahead at the outlook, we see steadily increasing interest in Cambi's solutions in various regions, as demonstrated by high activity levels in our proposals and sales teams. Cambi's outlook is strong, as we continue building capacity across multiple markets. We are expanding our reach through several initiatives to support this growth.

The UK has traditionally been our main market. We currently have 25 THP installations across the country, which together can serve up to 50% of the UK's population. Our last major contract in the UK was in 2021 for Southern Water. As the UK market is privatised, it functions under the supervision of the water services regulation authority called OFWAT. This market has been absent for new Technology sales since 2021.

The new planning period starts January 1st, 2025, called AMP 8 - Asset Management Period. This five-year investment cycle is expected to drive meaningful infrastructure upgrades, and Cambi is well positioned to secure new THP contracts in the coming years. Our extensive track record and established relationships allow us to support the UK's water utilities as they make critical investments in sustainable sludge treatment and becoming energy neutral.

In summary, Cambi's activity level in high potential markets and outstanding in the UK set the stage for high activity going forward. And now, I would like to pass the word to Mats, who will walk you through Cambi's financials in the third quarter.

Financial highlights

Mats Tristan Tjemsland, CFO

Thank you, Per, and good morning, everyone. I will now take you through the financial performance in the third quarter.

Slide 13 – Financial highlights for the quarter

First, let's take a look at some of the financial highlights. With good operational results come good financial results, and we are pleased to report another quarter with solid revenue and EBITDA performance.

Cambi has a scalable business model, and when the activity level is high, it unlocks profitability as illustrated by the reported EBITDA margin of 25%. This quarter, the revenue of the Solutions segment reached NOK 300 million on a rolling last-twelve-months (LTM) basis, marking an important strategic milestone for the company.

We received fewer milestone payments from ongoing construction projects in the quarter, impacting cash flow from operations negatively. However, Cambi has a solid financial position with no long-term debt.

We repeat our ambition to pay out dividends of 60 to 80% of net profits for the financial year 2024.

Slide 14 – Quarterly revenue and EBITDA

Let's take a look at some of the key financials. On a consolidated level, we report revenue of NOK 277 million and an EBITDA of NOK 68 million in the third quarter. Revenues were up from NOK 235 million in the same quarter last year and down from the all-time high in the previous quarter. This performance is mainly a result of steady progress made on a portfolio of ongoing construction projects.

Gross margins were reported at 57%, which is up from the previous quarters, mainly due to project mix. Also, the majority of Cambi's revenue is from foreign currencies, and Cambi is mainly exposed to US dollars (USD), euros (EUR), and British pounds (GBP).

In Q3, the average NOK exchange rate was 2 to 5% weaker towards these currencies versus the same quarter last year, which has a positive impact on our reported numbers in NOK. Cambi is a growing organisation, and we have made conscious targeted investments in increasing the capacity of the company, primarily within sales, marketing, project execution, and other areas - increasing payroll costs.

Financial review

Slide 15 – Technology segment – quarterly revenue and EBITDA

Let's take a closer look at the performance of our business segments. The technology segment covers sales, R&D, manufacturing, and the delivery of THP systems.

Revenue was reported at NOK 196 million in the third quarter, which is higher compared to the same quarter last year and lower versus the previous quarter. Gross margin was reported at 62%, up versus the previous quarter and the same quarter last year. The increase is driven by positive currency effects mentioned earlier, project mix, and a reduction of cost accruals for some projects.

As mentioned, the financial performance is driven by steady progress on the ongoing construction projects, where Cambi is set to deliver on client schedules.

At the end of the quarter, there were 15 ongoing construction projects in various stages of execution. The number of ongoing projects is at the same level as the same quarter last year.

In addition, the project in Lviv, Ukraine has been reactivated this quarter after having been on hold for more than two years.

EBITDA came in at NOK 55 million, slightly lower than the third quarter last year and the previous quarter. Overall, we are satisfied with the performance of the segment, allowing us to continue to invest in areas of future growth.

Slide 16 – Solutions segment – quarterly revenue and EBITDA

Let's take a look at the financials for the Solutions segment, which covers our offering to existing customers and the Recycling company Grønn Vekst. In Q3, we report

revenues of NOK 81 million, up from NOK 66 million in the same quarter last year and down from the previous quarter. The revenue split is around 50-50 between the subsegments Services and Recycling in Q3.

For Services, we see a continued increase in the demand for site services and upgrades driven by new project deliveries and a gradually aging installed base at the end of the quarter. There were no ongoing construction contracts, down from three in the same period last year.

For Recycling, bulk soil sales were up 23% compared to the same period last year, and the team has started production and bagging of peat-free soil for the spring season of 2025, as Per mentioned earlier.

Gross margins are slightly up versus the same quarter last year and the previous quarter.

Slides 17 and 18 – Last-twelve-months (LTM) development

Let's zoom out and look at the long-term development over the last 12 months. In Solutions, there is seasonality with more soil sold during the summer months and more services, such as annual shutdowns, done during these periods.

The last-twelve-months (LTM) view helps smooth out this seasonality and other fluctuations from quarter to quarter.

Key financials on a rolling LTM basis show that revenues were just shy of NOK 1.1 billion in Q3, the highest level on record, and the LTM EBITDA in Q3 is in line with the full-year EBITDA for 2023 and the LTM EBITDA in the previous quarter. This development demonstrates Cambi's scalable business model.

Let's also look at the LTM development for our business segments. The Technology segment has operational leverage, unlocking profitability when the activity level is high. As communicated before, the Solutions segment is a strategic priority for Cambi, and we are pleased to report that LTM revenue surpassed NOK 300 million in Q3, the highest level on record.

Order intake and backlog

Slide 19 – Order intake

Let's move to the order intake for the quarter. No contract awards were announced in Q3, and the reported order intake of NOK 117 million includes all revenues such as spare parts, consulting, variation orders, index regulation on existing contracts, and contracts not above the stock market announcement threshold, which is set at NOK 15 million.

Additionally, the order intake includes a currency effect from the order backlog based on currency closing rates from quarter to quarter. In Q3, there was a positive impact of NOK 9 million in the reported order intake for Technology, driven by a slightly weaker NOK.

The Lviv project in Ukraine was reactivated during the quarter, and the reported order intake includes an agreed-upon price escalation for the project to compensate for cost increases while the project was on hold.

Following the end of the quarter, a small contract in Spain was announced. We categorize contract sizes, and a small contract ranges from NOK 15 to 50 million.

Slides 20 and 21 – Order backlog

Let's examine the order backlog. The reported order backlog represents the value of the total work Cambi has committed to completing in the future. The order backlog was NOK 1.3 billion at the end of the quarter, down from NOK 1.8 billion the same quarter last year and down from the previous quarter.

The backlog decrease from the previous quarter is mainly driven by revenue recognition on ongoing construction contracts in Solutions. There are no ongoing construction contracts at the end of the quarter, meaning the reported backlog in Solutions only includes the value of the remaining work and the Grønn Vekst biosolids and garden waste handling contracts, inclusive of contract extension options.

The backlog provides good visibility for future activity levels, leading to backlog distribution.

The distribution by execution year is on the left side, and the breakdown is based on recent client project delivery schedules.

We expect to convert around 15% of the current backlog of NOK 1.3 billion into revenues for the rest of this year. In 2025, we expect to convert more than half of the current backlog into revenue. The remaining 30% of the backlog is expected to convert into revenue in 2026 and beyond.

On the right side, the breakdown of the order backlog by currency shows that the backlog at the end of the quarter is roughly evenly split between NOK, USD, and euros. In the future, we expect the share of backlog in NOK to be lower, as most of Cambi's potential lies internationally.

Financial statements

Slide 22 – Income statement

Let's take a look at the income statement. Some key developments were already mentioned, but I'd like to highlight a few important points. As a reminder, Cambi's financial statements are prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

This means that the gross margin only considers materials, goods, and services for manufacturing the products, not all direct costs associated with making the product, such as direct labour and factory overhead costs. These costs are included in the operating expenses.

Payroll costs are primarily driven by the gradual headcount increase in the organization as it continues to grow, as I mentioned. Around 40% of the payroll costs are in other currencies than NOK, influenced by foreign exchange rates. The weak NOK lifts the reported payroll costs in NOK due to this.

Additionally, as of 2024, we report payroll costs with remuneration policy accruals on a quarterly basis, which was not the case for Q3 last year, where Cambi reported the entire annual variable remuneration costs in Q4.

Other operating expenses align with the previous quarters, but Q3 last year was impacted by the reversal of project-related accruals. This was due to a change of principle where costs related to construction projects that are part of OPEX no longer follow the percentage of completion method.

The accrual reversal had a positive impact of NOK 20 million in Q3 2023. Half of this impact was related to the first half of 2023, while the other half related to 2022.

Depreciation and amortisation were reported at NOK 7 million, in line with previous quarters, mainly consisting of the IP from an acquired technology portfolio in 2022. This portfolio will be fully amortised by Q2 next year, reducing the current quarterly depreciation and amortization cost by NOK 4 million.

The reported net financial items are negative NOK 5 million in the second quarter, primarily due to agio. Additionally, costs related to bank guarantees and interest income are included in this figure.

The income tax in Q3 was NOK 14 million. As mentioned in previous quarterly presentations, income tax will now be reported on a quarterly basis, though the full, comprehensive tax calculation will appear in the annual report.

Slide 23 – Balance sheet

Now, moving to the balance sheet, total assets were reported at NOK 765 million, slightly down from last year but up from the previous quarter. Bank deposits decreased to NOK 174 million in the third quarter, down from NOK 282 million in the same quarter last year and down from the previous quarter.

Debtors were reported at NOK 414 million in Q3 and include earned but not yet invoiced revenue from construction contracts of NOK 254 million, significantly up from last year. Current liabilities include accrued project-related costs of NOK 124 million, at the same level as last year. Cambi has no long-term debt, reflecting a healthy balance sheet.

Slide 24 – Cash flow

Finally, turning to cash flow, the main cash flow comes from operating activities, as Cambi has a capital-light business model. Operational cash flow was negative NOK 79 million this quarter, down significantly from the same quarter last year and the previous quarter. The primary reason is timing effects, with fewer milestone payments received from ongoing construction contracts.

Payments for the purchase of fixed assets mainly relate to biosolids handling contracts within the Recycling subsegment, Grønn Vekst.

New investor portal

Before moving to the Q&A, I'd like to highlight the launch of our new investor portal. It gathers relevant investor information, such as general meetings, dividend policy, live and historical share data, and more. Please check it out and subscribe for future stock exchange announcements.

This concludes my overview of the financials for this quarter. Now, let's move to the Q&A session.

Q&A session

Mats: So, Anda, have we received any questions?

Anda: We already received several, so we can dive in. Let's take the first questions with Per around the UK market.

Per, could you shed some more light on the contract opportunities you see in conjunction with AMP 8 in the UK? For example, how are the opportunities for existing vs new clients? How do you see opportunities for retrofitting contracts versus greenfield projects?

Per: Yes, I can. This is going to be a very important AMP period in the UK. The investment budgets are substantially higher than in the previous asset period or investment period. We estimate that the investments will be at least 70% higher on average between the water and wastewater companies in the UK. And this is a five-year cycle, so we cannot say exactly when the projects are going to present themselves to Cambi, but we are, I have to say, quite optimistic about the opportunities in this investment cycle.

Anda: Now, Per, given that the AMP 8 budget is up by 73% from AMP 7, how do you expect this to translate into the number of THP contracts to be awarded relative to what you saw during AMP 7?

Per: We do expect a higher level this time than in the previous planning period. Difficult to say how much, even if the budgets are up. It is, of course, all over, both for drinking water, wastewater, sludge handling, and everything that is part of the water and sewage companies' businesses. But as I said, I do expect higher activity than in the previous one. I think one of the most important drivers for the companies when it comes to sludge will be to become carbon neutral or energy neutral. This will probably drive a lot of the investments in the coming planning period.

Anda: Now, last question around the UK. Per, could you shed some light into the competitive situation for THPs there? Are there any competitors tendering at all, or does THP equal Cambi in this country too?

Per: As far as I am aware, there are no other THP suppliers in the UK market, but we do take competition always very seriously. But there are no other THP suppliers, as I am aware of, and we are very well known to the UK companies. There are 13, if you include Ireland – it's not UK – but if you include both Ireland and Scotland, Wales, and England, there are around 13 utilities, and eight of them are already customers of Cambi. So, there are a few that have not yet installed our technology, but we are optimistic that it should be possible to introduce our technology also to the others.

Anda: Thank you, Per! Now, let's move to the other side of Europe. Mats, could you provide some more colour on that new timeline for the project in Lviv?

Mats: Yeah, sure. So, given the complexities involved, there is, of course, risk of delays, but what I can say is that the project is scheduled with the THP delivery in the first half of 2026, and we do expect a startup closely following this.

Anda: Thank you, Mats. Speaking of one project, what is the typical historical win rate for projects where you have done the engineering, Per?

Per: Yeah, as far as I can think of, at the top of my head, I don't think we have lost any project where we first have done the engineering and then gone over to the tendering phase. I think it's a, yeah, close to 100%, as far as I can think of on the top of my head.

Anda: Great! Mats, would you be kind enough to shed some more light on expected working capital development going forward?

Mats: Yeah, so, I think from what you saw this quarter, there are timing effects. This is quite normal from milestone payments, so that can fluctuate between quarters. If you look back in the early days of Cambi, the projects were very back-end loaded, meaning that payments were received quite late in the project delivery. In the capital

markets update last year, we communicated that, you know, normally, we are cash-positive when it comes to project delivery, so it is much more closely linked to the actual progress and cash layout that we have on projects. But I would say that we do see a variation from project to project. So, this, you know, statement in the capital markets update is not necessarily true all the time. But we monitor the situation very closely and we have the flexibility as well to add on credit lines if it should be necessary. But I would say it's still quite normal to be cash-positive in project execution.

Anda: Thank you, Mats! Now, Per, you are acting CEO, how is the process with finding a new CEO?

Per: We are not in a hurry. The intention is that I will continue to stay on for a while and we will inform the investors and the market in due course. I do want to, at least oversee quite a few important strategic initiatives that we are working on for the time being, for example, establishing ourselves in other key markets and important technology developments that we are working with. But we will inform the market in due course.

Anda: All right. Thank you, Per! It seems we have no more questions in.

Per: Okay, very good.

Anda: This presentation has been recorded and will be available later today on Cambi's investor portal. Have a great day! Thank you!

Per: Thank you to all listeners!